CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
FOREIGN EXCHANGE TRANSACTIONS

September 16, 1996

This Policy is effective upon adoption and supersedes all previous foreign exchange transaction policies.

I. PURPOSE

This document sets forth the investment policy ("the Policy") for Foreign Exchange ["FX"] Transactions ("the Program"). The design of this Policy ensures that investors, managers, consultants, or other participants selected by the California Public Employees' Retirement System ("the System") take prudent and careful action while managing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and capturing returns associated with this segment of the market.

II. INVESTMENT APPROACHES AND PARAMETERS

These guidelines allow the holding of foreign currency balances to provide flexibility to manage cash and take advantage of investment opportunities in the international market. It allows the utilization of industry practices in order to determine when it is best to hold/convert foreign currency based on market conditions/investment strategy.

A. Foreign currency may be purchased as needed by the international managers in anticipation of future trading activity, provided each transaction meets the following criteria:

   1. Is consistent with the manager's investment strategy from the investment guidelines contained in the contract;

   2. Generates interest earnings; and

   3. Follows the standard operational procedures of the System's master custodian

B. Netting proceeds from sales or income receipts or both with funds required for future purchases and entering into a foreign exchange contract for the difference is hereby allowed, providing each transaction meets the above criteria.

C. FX transactions may occur between foreign currencies (cross currencies) when made in anticipation of future sales or purchases of securities. For international fixed income managers and global asset allocation managers only, FX transactions also may occur between foreign currencies (cross currencies) for the purpose of managing the Portfolio's overall currency allocation (hedging).

D. Foreign currency balances can be held provided they are invested in an interest-earning instrument and are reconciled daily with the System's master custodian.

E. Any FX transaction must comply with the System's Derivatives Investment Policy for External Money Managers.

F. Uncovered forward currency positions that result in leveraging of the total portfolio are prohibited.